Medicare and your HSA

As you approach age 65, it is important to understand how your eligibility for Medicare may impact your Health Savings Account (HSA). **Due to IRS rules, once you enroll in Medicare you are no longer allowed to contribute to an HSA.** BenefitWallet® created the following guidelines to determine when you should cease contributing to your HSA and how you should manage and use the account going forward.

HSAs and Medicare eligibility

Becoming eligible for Medicare does not impact your ability to make contributions or withdrawals from your HSA, assuming you otherwise remain HSA eligible. However, once you enroll in Medicare you are no longer eligible to make contributions to your account, but you can continue to pay for qualified medical expenses with your HSA.

Has your spouse enrolled in Medicare?

You can still contribute to an HSA as long as you are covered by an HSA-qualified health plan.

Medicare enrollment and HSA contributions

Your eligibility to make HSA contributions ends the month you're enrolled in Medicare. Your annual HSA contribution limit is prorated based on the number of months you were eligible to contribute. See reverse for information on calculating your prorated limit.

HSAs and Social Security

Electing Social Security retirement benefits automatically enrolls you in Medicare Part A (also known as Hospital Insurance). Currently, there is no process within the Social Security Administration to waive this automatic coverage. If you meet Medicare's eligibility requirements, you may have the option to voluntarily enroll in Medicare without electing to receive Social Security retirement benefits.

If you are beyond your full retirement age when you sign up for Social Security retirement benefits, your enrollment in Part A could be retroactively effective by as much as six months. Under IRS rules that retroactive coverage makes you ineligible to make HSA contributions during the retroactive period. If you contribute to your HSA during this time, those contributions must be included in your taxable income and may be subject to tax penalties.

If you are planning to enroll in Social Security, you should consider discontinuing your HSA contributions at least six months before you apply for Social Security retirement benefits to avoid any adverse tax consequences.

Paying for qualified health care expenses

Once you've enrolled in Medicare, continue to use the tax-free funds from your HSA for the same qualified expenses you've always used HSA funds for, plus these additional expenses:

- Medicare Part A deductible and premiums
- Medicare Part B premiums and co insurance
- Medicare Part D prescription drug premiums
- Medicare out-of-pocket expenses

You cannot use your HSA to pay premiums for a Medicare supplemental policy.

Calculating your contribution limit

According to IRS rules, HSA contribution limits must generally be prorated by the number of months you are eligible to contribute. Eligibility is based on your coverage status on the first day of the month.

To calculate your personal contribution limit:

- Add the total annual contribution limit (based on your coverage type: individual or family)
- Add the annual catch-up contribution amount (if you are age 55+)
- Divide that amount by 12
- Multiply it by the number of months you qualify that year

Example:

(Annual contribution limit + $1,000 catch-up contribution) ÷ 12) x number of months eligible = your personal contribution limit

Did you know?

At age 65, you can use your HSA for non-qualified expenses with no tax penalty. You'll just have to pay income tax, which is typically lower in retirement.

Designate your beneficiary

If you haven't done so already, designate a beneficiary for your HSA. This determines how your HSA funds will be distributed when you pass away.

The tax consequences differ depending on your beneficiary.

- If your spouse is the designated beneficiary: Your HSA will be treated as your spouse's HSA and there is no tax event — the account simply transfers to your spouse.
- If your spouse is not the designated beneficiary: The account stops being an HSA, and the fair market value of your HSA becomes taxable to the beneficiary in the year you pass away.
- If your estate is the beneficiary: The value of your HSA is included on your final income tax return.

Simply log on to mybenefitwallet.com, then click on **Beneficiaries** in the secondary navigation bar.

We're here to help

For additional information on Medicare's impact to your HSA contributions, please contact BenefitWallet at **877.472.4200**, or visit mybenefitwallet.com.

For information on Medicare and Social Security benefits, contact the Social Security Administration at 800.772.1213, visit the Medicare website at medicare.gov, or contact a qualified accountant or attorney.

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Medicare and your HSA:

Frequently asked questions

Am I eligible for a Health Savings Account (HSA)?

To be eligible for an HSA, you must be enrolled in an HSA-qualified health plan and you cannot be covered by another health plan (including Medicare or Tricare) or be claimed as a dependent on another person's tax return.

What must I consider about my HSA as I near Medicare eligibility?

There are two key points you must consider to avoid any pitfalls with your HSA at age 65:

1. While you can continue to spend from your HSA, you cannot set up or contribute to an HSA in any month that you are enrolled in Medicare.
2. You should stop contributing to your HSA six months before you apply for Social Security retirement benefits to avoid potential tax penalties.*

* When you sign up for Social Security retirement benefits, and if you're already six months beyond your full retirement age, Social Security will give you six months of "back pay" in retirement benefits. This means that your enrollment in Part A will also be backdated by six months. Under IRS rules, that leaves you liable to pay six months' of tax penalties on your HSA.

Can I enroll in an HSA if I am enrolled in Medicare?

No. Once you enroll in Medicare Part A and/or B, you can no longer set up or contribute pre-tax dollars to an existing HSA. This is because you cannot have any health insurance other than a High Deductible Health Plan (HDHP).

Can I spend from my HSA if I'm enrolled in Medicare?

Yes. Even if enrolled in Medicare, you may keep an HSA if it was in existence prior to Medicare enrollment. You can spend from your HSA to help pay for medical expenses, such as deductibles, premiums, copayments, and coinsurances. If you use the account for qualified medical expenses, it will continue to be tax free. Qualified medical expenses are defined by the IRS and include Medicare premiums and copays, providing a valuable way for Medicare beneficiaries to make use of their unused HSA funds.

What if I am covered under my spouse's HSA at work?

The IRS rule affects only employees age 65 or older who have HSAs through their employment, because they are the ones who contribute to HSAs from their before-tax earnings at work. The rule does not affect covered spouses over age 65, who can continue to use funds from the working spouse's HSA for approved medical purposes.

What do I need to know about my HSA and being enrolled in Medicare Part A?

- If you're entitled to Medicare because you signed up for Part A at age 65 or later (perhaps not realizing that it can affect the use of your HSA), but have not yet applied for Social Security retirement benefits, you can withdraw your application for Part A. To do so, contact the Social Security Administration at 800.772.1213. There are no penalties or repercussions and you are free to reapply for Part A at any future date.
- If you have applied for or are receiving Social Security benefits, which automatically entitle you to Part A, you cannot continue to contribute to your HSA. The only way you could opt out of Part A is to pay back to the government all the money you've received in Social Security payments, plus everything Medicare has spent on your medical claims. You must repay these amounts before your application to drop out of Part A can be processed. If you take this action, you're no longer entitled to Social Security or Medicare, but you can reapply for both at any time in the future (for example, if you end or lose your HSA coverage).

I will be eligible for Medicare this year but do not plan to enroll until I retire. I will remain on my employer's insurance plan until that time. Can I keep contributing to my HSA?

Yes. If you are eligible for Medicare but do not actually enroll, you can continue to contribute to your HSA. Once you enroll in any part of Medicare, you will no longer be eligible to contribute to your HSA. Even enrolling in Part A alone will disqualify you from depositing to your HSA.

What if I received Medicare Part A under age 65 through disability?

In this situation, you're entitled to Medicare as soon as you've received your 25th disability check from Social Security. In other words, you automatically go into the Medicare system and are no longer eligible to contribute to your HSA. If you're able to return to work, your disability payments will eventually stop, but your Medicare entitlement continues for up to 93 months from the time you first applied for disability.

What are the consequences of contributing funds to my HSA while enrolled in Medicare?

Medicare beneficiaries who continue to contribute funds to an HSA may face IRS penalties including payment of back taxes on their tax-free contributions and account interest, excise taxes and additional income taxes.

What if I need more information?

If you have any questions about this process, we recommend you consult a tax professional. If you have a BenefitWallet question, you can visit our website at mybenefitwallet.com or call us at **877.472.4200**.

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